

2023-24 Annual Report

Agriculture industry overview*

Softening commodity prices led to profitability pressures in the agriculture industry in 2023, along with a moderation in food inflation. In 2023, gross domestic product (GDP) in agriculture (crop and animal production) was down 4.6% year over year, while food manufacturing increased 0.5%, compared to the overall economy being up 1.2%.

Russia's war against Ukraine continues, although global agricultural markets are no longer incorporating a war premium into prices. Grain continues to be exported from the region despite Russia pulling out of the United Nations Black Sea Grain Initiative export agreement. The conflict in Gaza continues to unfold and, if it spreads to neighbouring countries, could disrupt production and transportation of oil and other goods. Escalation of the conflict could impact oil and fertilizer prices, particularly nitrogen, which would lead to higher input prices for producers. Shipping companies are avoiding the Red Sea as a shipping route, which also adds costs to commodity prices.

Farm cash receipts growth slowed in 2023 to 3.5%. The 2024 receipts are expected to decline 4.8% due to weaker commodity prices. Declines in farm cash receipts have historically happened following periods of strong increases. With the improvement in primary producers' balance sheets, the agriculture sector is in a good position to face profitability challenges in 2024.

Food manufacturing sales for 2023 grew 6.2% but, when adjusted for inflation, growth was only 0.7%. Input costs continued to rise in 2023, putting pressure on profit margins for manufacturers. However, margins are projected to improve in 2024 to their highest level since 2021.

Most farm sectors' revenues trended higher

In 2023, total Canadian grain, oilseed and pulse production decreased 7.5% from the previous year to an estimated 89.5 million tonnes, which is also 2.2% below the five-year average. The decline was largely driven by the 2023 drought in Western Canada. Input costs fell throughout 2023, giving producers opportunities to lock in positive margins. Overall crop receipts increased 3.5% in 2023 but are expected to decline 4.8% in 2024.

In the poultry sector, avian influenza this past year contributed to a shortfall in hatching eggs and impacted egg and broiler production, with the impacts continuing into 2024. However, due to stronger prices, poultry and egg receipts were up an estimated 10.4% in 2023 and are forecast to continue trending higher in 2024 even with egg sourcing challenges. Demand needs to be monitored as poultry stocks largely exceeded their historical average at the end of 2023.

There was strong profitability in the beef sector in 2023 in many regions of Canada, but drought-stricken areas did face challenges with feed availability and cost. Even with receipts up an estimated 21.5% in 2023, the size of the Canadian beef herd reached a three-decade low. Hog farrow-to-finish margins were under pressure for most of 2023, with Eastern Canada being the most impacted due to slaughter capacity issues, leading to receipts being down an estimated 10.1%. Overall, livestock receipts increased an estimated 8.9% in 2023.

Farm input prices softened for most products in 2023 as energy prices weakened. Global fertilizer production returned to normal as the supply chain and previous production issues were largely

* References within *Agriculture industry overview* refer to calendar year.

resolved. As a result, fertilizer prices declined 18.8% in 2023 from their 2022 highs and trended slightly higher through spring 2024. Fuel costs dropped a similar 18.5% in 2023. Other inputs, including commercial seed and feed, saw increases in 2023 but, most importantly for livestock producers, feed costs are expected to decline in 2024. Machinery prices also saw sharp increases in 2023 and are expected to remain at current levels for 2024, which will lead producers to be cautious with equipment purchases.

Farmland values continue to trend higher

High demand and limited sales pushed up farmland values by 11.5% in 2023, although growth is forecast to slow to 6.0% in 2024. Strong farmland values continue to support producers' balance sheets, but high prices are leading to affordability challenges and barriers to entry for some producers, especially new entrants in the industry.

Higher interest rates are slowing investments

Canadian farm debt increased an estimated 5.4% in 2023. Projections for 2024 are for farm debt to increase an additional 5.3%. Investments on Canadian farms have slowed amid higher rates. Despite reduced investments on equipment and buildings, demand for farmland remains strong for producers with strong balance sheets who are seeing opportunities to enhance the efficiency of their operations.

Food and beverage manufacturing capital expenditures as a percent of revenue held steady in 2023 at 2.8%, but a significant portion of that investment is likely related to new canola crush plants in Western Canada. Investment in technology has become more important than ever given the

still-tight labour market and long-term demographics as the population ages.

Trade is impacted by geopolitical tensions

Exports are key to Canada's success as a leading agricultural and food producing nation. With a small population and vast amount of land, we rely heavily on the global export market. Canada is the fifth-largest exporter of agriculture products in the world.

Market access challenges continue to exist for some Canadian exporters. Chinese restrictions on Canadian beef imports due to a single case of bovine spongiform encephalopathy (BSE) were implemented in January 2022 and remain in effect. Prince Edward Island seed potato exports to the U.S. have been banned since November 2021 because of potato wart. There are some positive trade developments for Canada despite political tensions with India. India has reversed several import restrictions on lentils and peas as food inflation remains rampant in India and domestic supplies are tight. India has reversed several import restrictions on lentils and peas as food inflation remains a problem in that country amid tight supplies. India extended its duty-free imports until March 2025 for lentils and until October 2024 for peas.

Food and beverage manufacturing margins are under pressure

Amid elevated inflation, consumers adjusted their food spending and consumption habits in 2023 and will continue to do so in 2024. According to Ipsos, the number one action Canadians took in 2023 to deal with inflation was to cut back on dining out, with over half (57%) opting for this strategy. Changes are happening at the grocery store as well.

These shifts in consumer behaviour will continue to put pressure on food processing revenues. On the other hand, population growth is offsetting some of the pressures from shifts in per-capital spending. The rate of growth in the price of many input costs has slowed, with some input costs outright declining. Wage growth remains elevated but should cool down later this year in line with the declining job vacancy rate.

Taken together, we are projecting that the gross margin index in food and beverage manufacturing will increase 5% in 2024. While profitability looks to improve relative to 2023, it's still down 7% relative to 2021. These projections can vary across the different segments of processors.

Canadian agriculture and agri-food industry remains healthy

The Canadian agriculture and agri-food industry remained financially healthy at the end of 2023 despite margin pressure in specific sectors. A supportive Canadian dollar and increased demand from industries like renewable fuels created opportunities for Canadian agriculture, agribusiness and food processors. The expected decline in 2024 farm cash receipts isn't surprising as the industry is coming off strong commodity prices the past few years, with many grain and oilseed producers having excellent returns.

Food manufacturing remains a significant driver of the Canadian economy. Small- to medium-sized food processors are delivering innovative food products to Canadians, and larger processing firms are capitalizing on the growing demand for safe, high-quality food in foreign markets. Agriculture, agribusiness and food processors are continually adapting to the changing market environment.

Canada's agriculture and agri-food industry has shown resilience and is well-positioned to weather current and future economic pressures, and leverage future opportunities.

ADDITIONAL INFORMATION

For more information, visit:

[!\[\]\(aa53ad6fea213b8b2226d3077e30533a_img.jpg\) Farmland Values Report](#)

[!\[\]\(dd161862f9164df98f62b726e9846241_img.jpg\) FCC Sector Outlooks](#)



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